

**REPORT OF THE AUDIT OF THE
CALDWELL COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 26, 2006

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CALDWELL COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

April 26, 2006

Romaine & Associates, PLLC has completed the audit of the Sheriff's Settlement - 2005 Taxes for Caldwell County Sheriff as of April 26, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,815,200 for the districts for 2005 taxes, retaining commissions of \$103,869 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,710,979 to the districts for 2005 Taxes. Taxes of \$253 are due to the districts from the Sheriff and refunds of \$702 are due to the Sheriff from the taxing districts.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Van Knight, Caldwell County Judge/Executive
Honorable Stan Hudson, Caldwell County Sheriff
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

We have audited the Caldwell County Sheriff's Settlement - 2005 Taxes as of April 26, 2006. This tax settlement is the responsibility of the Caldwell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Caldwell County Sheriff's taxes charged, credited, and paid as of April 26, 2006, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Van Knight, Caldwell County Judge/Executive
Honorable Stan Hudson, Caldwell County Sheriff
Members of the Caldwell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

Krista L. Romaine, CPA

Krista L. Romaine, CPA
Romaine & Associates, PLLC

Audit fieldwork completed -
September 27, 2006

CALDWELL COUNTY
STAN HUDSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT – 2005 TAXES

April 26, 2006

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 304,547	\$ 443,645	\$ 1,080,043	\$ 415,597
Tangible Personal Property	50,887	65,648	155,610	169,288
Intangible Personal Property				21,960
Fire Protection	516			
Increases Through Exonerations	4,150	5,359	12,704	16,241
Franchise Taxes:				
Billed	35,828	47,727	114,307	
Unbilled	1,351	1,867	4,511	
Additional Billings	342	446	1,063	2,080
Oil and Gas Property Taxes	38	54	134	51
Limestone, Sand and Mineral Reserves	2,299	3,270	8,152	3,105
Penalties	2,262	3,284	7,877	3,260
Adjusted to Sheriff's Receipt	(3607)	(4917)	(11697)	(19197)
Gross Chargeable to Sheriff	\$ 398,613	\$ 566,383	\$ 1,372,704	\$ 612,385
<u>Credits</u>				
Exonerations	5,296	7,344	17,955	5,973
Discounts	5,121	7,323	17,712	9,105
Delinquents:				
Real Estate	6,539	9,348	23,190	8,831
Tangible Personal Property	370	478	1,133	1,438
Franchise Taxes:				
Unbilled	1,351	1,867	4,511	
Total Credits	\$ 18,677	\$ 26,360	\$ 64,501	\$ 25,347
Taxes Collected	\$ 379,936	\$ 540,023	\$ 1,308,203	\$ 587,038
Less: Commissions *	16,435	22,951	39,246	25,237
Taxes Due	\$ 363,501	\$ 517,072	\$ 1,268,957	\$ 561,801
Taxes Paid	363,754	517,196	1,268,824	561,205
Refunds (Current and Prior Year)	51	217	190	343
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ (304)	\$ (341)	\$ (57)	\$ 253

The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY
 STAN HUDSON, SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 April 26, 2006
 (Continued)

* Commissions:

10% on	\$	10,000	\$	1,000
4.25% on		1,496,997		63,623
3% on		1,308,203		39,246
				<u>103,869</u>

** Special Taxing Districts:

Library District	\$	(95)
Health District		(48)
Extension District		(75)
Hospital District		<u>(123)</u>

Due District(s) or

(Refund(s) Due Sheriff)	\$	<u>(341)</u>
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CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 26, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
April 26, 2006
(Continued)

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005 and April 26, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2005 through April 26, 2006.

B. Oil Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 8, 2005 through April 26, 2006.

C. Limestone, Sand, and Gravel Reserve Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 7, 2005 through April 26, 2006.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
April 26, 2006
(Continued)

Note 4. Interest Income

The Caldwell County Sheriff earned \$931 as interest income on 2005 taxes. As of September 27, 2006, the Sheriff owed \$19 in interest to the school district and \$43 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Caldwell County Sheriff collected \$12,669 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of September 27, 2006, the Sheriff owed \$4,334 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Caldwell County Sheriff collected \$2,565 of advertising fees and costs allowed by KRS 424.330(1) and KRS 134.440(2). As of September 27, 2006, the Sheriff owed \$1,390 in advertising fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Van Knight, Caldwell County Judge/Executive
Honorable Stan Hudson, Caldwell County Sheriff
Members of the Caldwell County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Caldwell County Sheriff's Settlement - 2005 Taxes as of April 26, 2006, and have issued our report thereon dated September 27, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Caldwell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Caldwell County Sheriff's Settlement - 2005 Taxes as of April 26, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Krista L. Romaine, CPA

Krista L. Romaine, CPA
Romaine & Associates, PLLC

Audit fieldwork completed -
September 27, 2006